Analyses OSW

CENTRE FOR EASTERN STUDIES 4.08.2022 www.osw.waw.pl

Russia in a gas war with Europe

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On 27 July, Gazprom – following on from its announcement of 25 July – reduced gas supplies via the Nord Stream 1 (NS1) pipeline to its European customers. Gas shipments fell from about 65 million cubic metres per day (about 39% of the standard amount) to about 32 million cubic metres (19%). The pretext for reducing gas deliveries was the shutdown of another turbine at the Portovaya compressor station near Vyborg due to alleged engine wear. On 26 July, during a meeting on energy, Prime Minister Mikhail Mishustin called for Russia to accelerate the gasification process, increase domestic gas demand (for industrial production, heating and vehicle fuel), raise LNG production and diversify gas exports.

Earlier, on 25 July, Ukraine's Gas Transmission System Operator noted that Gazprom had without warning significantly increased the pressure of the gas fed from Russia via the Urengoy-Pomary-Uzhhorod pipeline, which runs to the EU through Ukrainian territory. However, thanks to the operator's quick reaction, there was no system failure.

On 1 August, Gazprom said that according to preliminary data, it had produced 262.4 bcm of gas between January and July 2022, which is 12% (35.8 bcm) less than a year ago. Sales on the domestic market fell by 2% (by 3 bcm) and abroad by 34.7% (by 40 bcm), to 75.3 bcm. Moreover, in the first half of the year, it exported around 7.5 bcm of gas to China via the Power of Siberia pipeline, some 60% more than a year ago. The pipeline was commissioned at the end of 2019 and is expected to reach a design capacity of 38 bcm per year in 2025.

Data provided by the Russian Tax Service shows that the country's rouble revenues from gas exports fell by 40% in June compared to May. They amounted to ₽633 billion, compared to more than ₽1 trillion a month earlier, with the rouble exchange rate rising by around 9% during the period. Russia has not published any official foreign trade statistics since March this year.

Commentary

- The latest significant reduction in Russian gas supplies to Germany via NS1 means that Vladimir Putin's earlier threats are being carried out. The reduction in gas deliveries has nothing to do with the dispute over the return of the Siemens turbine to Gazprom. The turbines serve merely as a pretext (Moscow refuses to hand over customs documents allowing the delivery of parts from Germany because it does not accept the written guarantees from the Canadian and German governments that they will continue to service the turbines). Russia's immediate goal is to make it more difficult to fill European gas storage facilities before the winter heating season, and to spark an energy crisis in key EU countries.

- It is highly likely that Russia will continue to reduce gas supplies to EU in the short term. To this end, it may further reduce the flow of gas through NS1 (currently 33 million cubic metres/day) on the pretext of experiencing technical problems with successive turbines; it may also block supplies via the Bratstvo (Brotherhood) pipeline via Ukraine (42 million cubic metres/day). The reality of the latter scenario may be evidenced by Gazprom's manipulation of the pressure of the gas flowing via this route. Similar actions by the company led to the failure of a gas pipeline connecting Turkmenistan and Russia in April 2009. Almost 15 years ago, in order to terminate a contract for the purchase of gas from Turkmenistan that was unfavourable to it, Gazprom blocked the off-take of gas there without warning, leading to a pressure spike and an explosion at the facility. The least likely scenario, albeit not an impossible one, would involve the severe restriction or even the total stoppage of supplies via one of the TurkStream lines (for European customers), which is currently operating at almost full capacity (44 million cubic metres/day). However, this would close the last route of existing or potential supply of Russian gas to those European countries considered 'friendly' by the Kremlin: Serbia, Hungary and Austria.
- Prime Minister Mishustin's statements clearly indicate that the government is aware of the serious problem of running domestic surpluses of natural gas, a problem which has arisen thanks to the radical reduction in its exports to Europe (shipments from Russia to the EU currently amount to around 118 million cubic metres/day, around 28% of the 2021 standard figure). Plans to increase domestic consumption of gasmust be described as unrealistic (especially in the short term) in the face of the economic crisis. The same concerns the idea of increasing substantially sales to China. As a result, Russia has to reduce production, which will result in a drop in Gazprom's and budget revenues, among other things. The Kremlin is therefore betting on maximising pressure on the EU during the upcoming heating season, hoping to extract political and economic concessions which will allow it possibly to partially restore supplies afterwards. Russia is also probably hoping for oil prices to rise, which would partially compensate for the fall in the revenue from gas sales. For this reason, there is great concern in Russia about the G7's plans to set a price cap on its oil exports, which would severely affect the economy.
- The Kremlin's actions are hurting Gazprom – not only its current performance, but also its position on the market in the longer term. The corporation's representatives are aware of these losses, so they are trying to contain them. One of the safeguards against high damages for non-performance of contracts with European importers was to be a *force majeure* clause (to take effect from 14 June this year). However, it is doubtful whether Gazprom would have been able to demonstrate the need to restrict supplies to Europe in court, given that it has spare capacity available in its pipelines running through Ukraine and Poland. Therefore, the unexpected increase in pressure in the Ukrainian pipeline could be seen as an act of sabotage by Russia. Turning it off could serve as an argument for Gazprom that its actual capacity to transport gas to Europe is severely limited.